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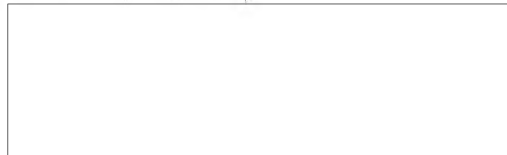


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Investment in Key LDC Debtors: Struggling To Regain Lost Ground

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A Research Paper

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Investment in Key LDC Debtors: Struggling To Regain Lost Ground

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A Research Paper

This paper was prepared by [] the
Office of Global Issues. Comments and queries are
welcome and may be directed to the Chief,
Economics Division, OGI, []

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Key Judgments

*Information available
as of 15 July 1985
was used in this report.*

The high investment growth that powered the economies of the key LDC debtors during the past two decades may be a thing of the past. The fallout from this dramatic shift in investment behavior will multiply the economic and political problems these countries will face during the next decade. In particular, slow investment growth is limiting, and will continue to limit, their economic recovery. Slow economic growth, in turn, will aggravate existing political and social tensions as it becomes clear that, even after four years of declining living standards, several more years of painful economic austerity will be necessary. Sluggish investment growth, which slows structural adjustment and the transmission of technology, will also place additional strain on the international financial system by jeopardizing debtor compliance with IMF programs and eroding LDC trade competitiveness. [REDACTED]

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After an unprecedented four-year plunge, investment in the key LDC debtors is beginning to recover. Even if this recovery can be sustained, we believe investment will grow at a historically slow rate during the next five years. Mexico should lead with investment growth averaging 4 to 6 percent annually. Investment growth in Brazil, Chile, Peru, the Philippines, and Venezuela should fall within the 2-to-5-percent range. In Argentina and Nigeria, investment probably will be sluggish—averaging 1- to 3-percent growth. Even if investment grows at the highest projected rate through 1989, only Venezuela, the Philippines, and Nigeria will regain the ground lost since the international financial crisis. [REDACTED]

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In our view, three key factors underlie this lackluster investment performance—unattractive returns, financing difficulties, and political-economic uncertainty. While the expected returns from investment projects may rise as economic activity slowly picks up, returns should remain well below the levels enjoyed during the 1960s and 1970s. In addition, the high cost and limited availability of investment funds will put a damper on capital formation. Domestic savings are likely to remain depressed and access to foreign capital probably will not be fully restored. We also foresee no significant improvement in the underlying level of political-economic stability in these countries. Capital flight, spurred by political-economic uncertainty, will remain a major obstacle to investment growth. The level of uncertainty could fall marginally, however, if the course of economic adjustment becomes clearer. [REDACTED]

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An investment recovery as weak as we predict could easily be derailed by economic and political shocks. In particular, deteriorating global economic conditions could slow investment growth dramatically. While an oil price slump may free some resources for investment in the oil importers, it would choke off investment growth in the oil exporters—Mexico, Venezuela, Nigeria, and Peru. A runup of interest rates would stifle investment in all eight countries; Venezuela and Nigeria, with lower interest-payment burdens, are somewhat less vulnerable. Because of their dependence on export earnings, a worldwide recession, or even rising protectionism, could also significantly reduce investment growth. The investment outlook for several countries—for example, Chile, Peru, and Argentina—would be downgraded considerably if the price of a key commodity should fall sharply. []

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Investment is also highly sensitive to the general political and economic climate in the key LDC debtors. If political conditions deteriorate, investment growth could be significantly lower than our projections. During periods of political instability, investors find it impossible to gauge the future returns from projects and increased capital flight shrinks the pool of investment funds. In contrast, if these countries abandoned their current policies of economic intervention and regulation, a surge in economic activity would surely follow, powered by investment growth well above our projections. However, given the short-run economic and political costs, we believe significant economic policy reform is unlikely during the next five years. []

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Foreword

This research paper is part of a Directorate of Intelligence research effort to assess the longer term effects of the LDC foreign debt crisis. It examines the dramatic shift in investment behavior that occurred in eight LDC debtors when they experienced severe international financial problems. Our investment outlook presents an estimate of each country's investment behavior during the next five years. These investment trends will play a major role in determining economic growth, the pace of structural adjustment, technological advancement, international financial positions, and compliance with IMF programs—factors that in turn affect political events in and US relations with these strategic LDCs.

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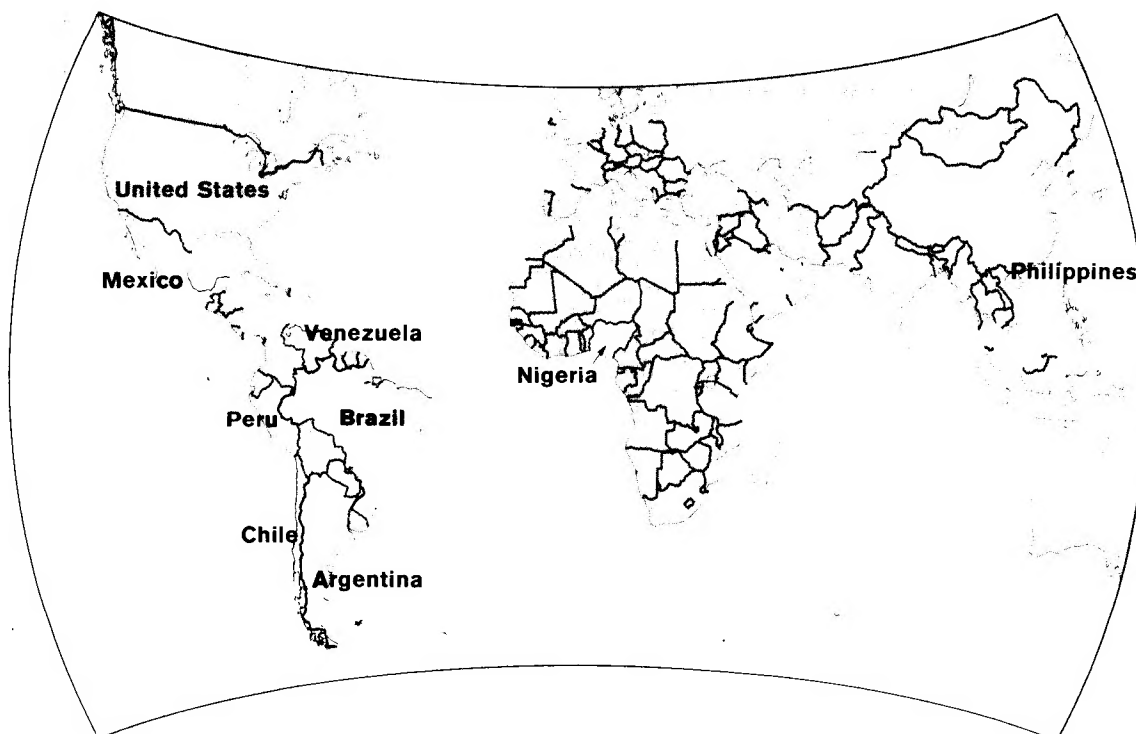
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Contents

	<i>Page</i>
Key Judgments	iii
Financial Problems Alter Investment Trends	1
Investment Plunges	1
Investment Patterns Shift	2
Key Factors Underlying the Investment Slump	4
Investment Outlook	6
Limited Recovery	7
Individual Country Outlooks	9
Factors Affecting the Outlook	11
Implications	12
Slower Economic Growth	12
Slower Structural Adjustment	12
Slower Technology Absorption	12
Appendixes	
A. Investment Trends Before the Financial Crisis	15
B. Supporting Data	19

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Figure 1
Key LDC Debtors, 1985



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Investment in Key LDC Debtors: Struggling To Regain Lost Ground

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Financial Problems Alter Investment Trends

Investment in the key LDC debtors rose steadily during the decade before the international financial crisis as these countries committed an increasing share of their economic resources to expanding the productive capacity of their economies.¹ Powered by impressive investment growth, these LDCs made significant economic progress; their GDP, for example, grew at an average annual rate of less than 5.5 percent, during the turbulent 1971-80 period. International financial problems in the early 1980s, however, caused a dramatic shift in investment behavior. This shift could have important effects on economic and political conditions in these LDCs over the longer term.

Investment Plunges

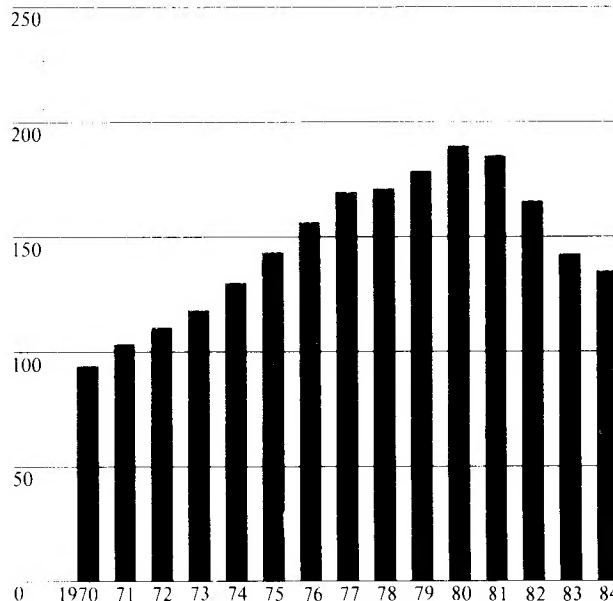
The recent international financial crisis shattered the decades-old trend of sustained investment growth in the key LDC debtors. Key indicators of their investment performance have fallen off dramatically to the levels of the mid-1970s (figure 2). Last year, investment in these countries was nearly \$55 billion lower than in 1980, a decline of 30 percent. In contrast to the average annual growth rate of 7.3 percent achieved during the previous decade, investment fell by an average of 8.2 percent annually during the past four years. The contraction in investment was more severe than the general slump in economic activity; real GDP fell, on average, about 1 percent annually since 1980. Consequently, the share of GDP devoted to capital formation slipped 6 percentage points to 17.2 percent.

¹ Key LDC debtors include Argentina, Brazil, Chile, Mexico, Nigeria, Peru, the Philippines, and Venezuela. These developing countries, deemed of strategic interest to the United States, have encountered serious economic problems as a result of their large foreign debt. Unless otherwise indicated, investment refers to gross fixed investment—investment in structures, machinery, and equipment.

All growth rates were calculated from constant-dollar values. All dollar values are measured in 1980 US dollars.

Figure 2
Key LDC Debtors: Investment,
1970-84

Billion 1980 US \$



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Investment last year was well below 1980 levels in each key LDC debtor. In Argentina, investment plunged by a total of nearly 55 percent during the past four years (figure 4). The share of the country's GDP devoted to capital formation also dropped off, falling from 23 to 12 percent. The investment slump was severe, but less dramatic, in Chile, Brazil, Peru, and Mexico. At the end of last year, investment in these countries stood 25 to 35 percent below 1980 levels. Nigeria, the Philippines, and Venezuela fared somewhat better, registering investment declines of only 10 percent. Recent trends indicate that the investment

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Linkage Between Investment and GDP

According to economic theory, the linkage between investment and GDP runs in both directions (figure 3). A change in the level of either variable will affect the other.

Investment Affects GDP

A change in investment spending affects GDP by altering the demand and supply of goods. An increase in investment, for example, raises GDP by first stimulating demand. Since investment is a component of demand, an increase in investment causes an equivalent rise in demand immediately. In addition, there will be ever-smaller "induced" increases in demand over the longer term as this demand increase filters through the economy. An increase in investment also raises GDP by accelerating the expansion of productive capacity. An investment increase leads to faster growth in the economy's capital stock, which

in turn leads to faster expansion of the economy's potential to produce goods over the longer term.

GDP Affects Investment

Changes in GDP affect all three of the major determinants of investment. An increase in GDP, for example, stimulates investment spending by raising the expected returns from projects and increasing the availability of funds. Since investors view current demand as a key indicator of future demand, GDP increases cause investors to revise upward their assessments of future returns from projects. The supply of internally generated funds also increases when GDP increases because government tax receipts and firm profits rise. Rising economic activity does, however, drive up the cost of projects, somewhat reducing the rise in investment spurred by changes in the other more important determinants.

downturn may have bottomed out in Brazil, Chile, Mexico, and Venezuela while it continues in Argentina, Nigeria, Peru, and the Philippines.

Investment Patterns Shift

While shattering the trend of sustained investment growth, the international financial crisis also broke the pattern of investment in the key LDC debtors that evolved during the 1970s. During the past few years, government and industry reordered their investment-project priorities, the role of the public and foreign sectors declined, and the growing dependence on foreign capital to finance investment was broken.

Government and Industry Reorder Priorities. Beset by international financial problems, the governments and industries of the key LDC debtors reordered their investment priorities. Governments shifted limited investment funds to projects having: favorable balance-of-payments effects, high short-term economic payoffs, or high social/political impact:

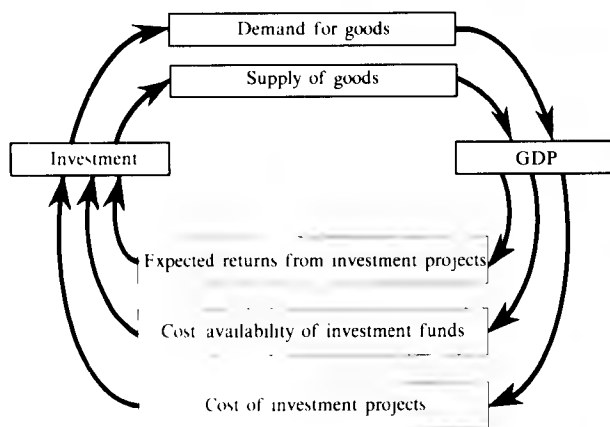
- **Favorable Balance-of-Payments Effects.** Projects that expand the country's capacity to produce export-oriented or import-substituting goods were

given high priority. "Downstream investment" projects that spur production utilizing locally produced inputs were also given special consideration. Brazil, for example, exploits its abundant hydroelectric power and ore deposits to produce metals for export. The governments also looked favorably on projects whose construction did not rely on imported goods and services.

- **High Short-Term Economic Payoffs.** Governments devoted more resources to smaller projects that yield identifiable economic benefits within one or two years. By leveraging past investment, an increasing share of the capital budget was allocated to the maintenance and expansion of existing facilities. Grandiose industrial projects that expanded into new areas with uncertain economic returns and long gestation periods were avoided. Gone too were the glamour projects—fancy international airports, hotels, and superhighways—with dubious economic value.

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Figure 3
Linkage Between Investment and GDP

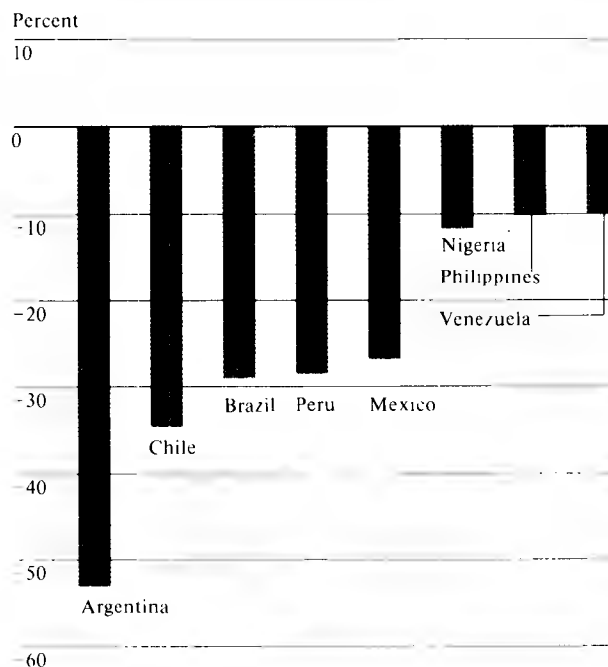


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- **High Social/Political Impact.** Governments favored investment projects that lessened the political fallout from harsh economic austerity. High-visibility projects boosting living standards, especially of the lower class, were given top priority. Projects with high employment content were especially desirable. In Chile, an emergency public-housing project, employing 80,000 workers, was planned that would build an additional 30,000 homes in 1983. Investment funds were also earmarked for small infrastructure projects that yield demonstrable improvements in health, education, communication, and transportation.

At the same time, private investment funds in the key LDC debtors were shifted into industries nurtured by government assistance when international financial problems arose. Government incentives and protection spurred investment in targeted industries by raising the returns from prospective investment projects in these industries above the returns from projects in the rest of the private sector. Protectionist measures

Figure 4
Key LDC Debtors: Total Change in Investment, 1981-84



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allowed firms producing goods for domestic consumption to enjoy above-average rates of return by sheltering them from foreign competition. An array of government subsidies in import-substituting and export industries boosted rates of return in these sectors as well. Brazil's "informatics law" is the best example of government industrial targeting. This measure stimulated local investment in the information-processing industry by barring imports and providing special assistance to local producers who rushed to fill the void.

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Roles of Public and Foreign Sectors Decline. Like project priorities, the sectoral breakdown of investment also changed when financial problems arose.

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Incomplete data suggest that the public sector's direct role in the investment process, which expanded rapidly before the international financial crisis, declined sharply during the past few years. When international financial problems developed, governments were confronted with declining revenues and political constraints on raising taxes. They chose to cut investment spending on infrastructure and in state enterprises rather than trim outlays in the more politically sensitive areas of defense and social welfare. We believe the governments of most key LDC debtors slashed their investment budgets between 30 and 50 percent in 1983, cuts in capital expenditure significantly higher than the drop in total investment that occurred that year. []

Similarly, the international financial crisis reduced even further the role of foreign direct investors in the key LDC debtors. The upward trend in foreign direct investment, which developed during the 1970s, was broken. Foreign investment reached \$6.5 billion in 1981 before plummeting by nearly 75 percent during the next three years. Brazil and Mexico were the hardest hit; their foreign investment fell from about \$2 billion each in 1980 to about \$600 million and \$300 million, respectively, in 1984. Investment by foreigners continued to be the most erratic component of investment, reacting faster and more dramatically to changes in the investment environment than other private investment. Since foreign investment fell off faster than investment by private residents, the foreign share of investment slipped to 1.3 percent in 1984—down a percentage point from 1980. []

Dependence on Foreign Capital To Finance Investment Broken. Trends in investment finance also were altered by the international financial crisis. The increased reliance of the key LDC debtors on foreign capital to finance domestic investment was reversed. Foreign capital inflows—the savings of foreigners obtained mostly through foreign borrowing—fell off dramatically. The amount of foreign savings absorbed by these countries plunged from \$35 billion in 1982 to about \$4.5 billion in 1984—nearly a 90-percent drop.² Foreign savings inflows in 1984 were about \$10 billion lower in both Brazil and Mexico than four years earlier. This sudden drop in foreign savings inflows occurred when commercial banks ceased voluntary

lending to most LDCs following Mexico's debt-payment moratorium. The loss of access to foreign savings, coupled with stagnant domestic savings, resulted in an equally dramatic drop in the share of investment financed by foreign savings. This share fell from about 20 percent during 1981-82 to less than 4 percent during the following two years. []

Key Factors Underlying the Investment Slump

The international financial crisis forced the key LDC debtors to undertake economic adjustment, which, in turn, caused the investment slump. During the previous decade, their economies were buffeted by external shocks—oil price jumps, global recessions, and high interest rates. Initially, these countries tried to postpone the necessary adjustment. Aided by foreign borrowing, they pursued expansionary monetary and fiscal policies and supported overvalued exchange rates. These domestic policy errors led to massive government budget deficits, spiraling inflation, capital flight, and a further deterioration in the balance of payments. Consequently, foreign borrowing accelerated and the burden of debt mounted. Following Mexico's debt-payment moratorium in August 1982, banker attitudes shifted, leading to a cutoff of voluntary lending to most LDCs. The key LDC debtors could not postpone economic adjustment any longer. []

The measures implementing economic adjustment in the key LDC debtors precipitated the sharp drop in investment that occurred during the past four years. Except for Nigeria and Venezuela, these countries were forced to adopt IMF-supported adjustment programs to secure badly needed financing and rescheduling. Although they have avoided formal adoption of IMF programs, Nigeria and Venezuela have developed their own adjustment programs. In general, IMF adjustment programs mandate economic austerity to stabilize the balance of payments and a gradual return to free markets to boost economic efficiency. Specifically, these programs require: domestic credit contraction, lower government deficits, real wage reductions, trade liberalization, exchange rate devaluations, and deregulation of prices and interest rates. Implementation of these adjustment measures in the key LDC debtors resulted in financing difficulties,

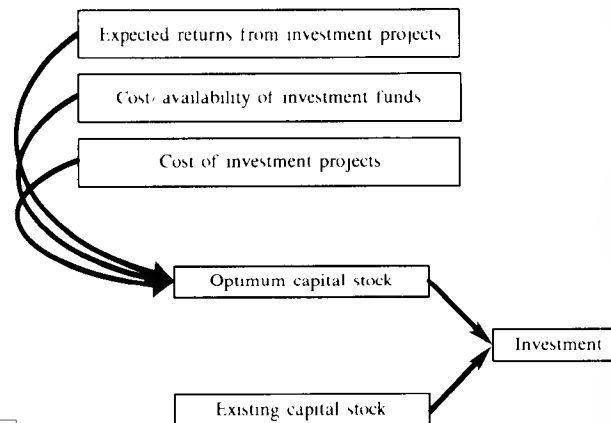
² Foreign savings refers to net foreign savings—savings inflows less savings outflows. []

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A Simple Model of Investment Determination

Economists have developed a simple model that explains investment determination in an economy (figure 5). According to that model, investment is linked to the difference between the optimal capital stock and the current stock of capital. Although project financing and project cost are also important, expected returns are the major determinant of the optimal capital stock and hence the flow of investment. The necessity of projecting returns, especially in LDCs, injects considerable uncertainty into the process of investment decisionmaking. To estimate future returns, investors must project a wide range of variables that determine future economic and political conditions. Changes in the expected future path of these variables cause investors to recalculate the optimal capital stock, possibly resulting in a sharp drop or a sudden surge in investment activity.

Figure 5
A Simple Model of
Investment Determination



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economic recession, and heightened uncertainty—the key factors we believe are directly responsible for the recent investment slump.

Financing Difficulties. We believe financing difficulties were the most important factor underlying the recent investment slump in the key LDC debtors. Foreign and domestic savings—the pool of funds available for investment—dropped to levels 80 and 8 percent lower, respectively, than in 1980 (figure 6). Foreign savings, obtained mostly through foreign borrowing, plunged as commercial banks ceased voluntary lending when they downgraded the creditworthiness of these countries following Mexico's debt-payment moratorium. Domestic savings contracted when national income fell and the real returns to savers grew increasingly negative, because regulated interest rates did not adjust to spiraling inflation. Interest and exchange rate distortions, coupled with rising political uncertainty, aggravated the savings shortage by spurring capital flight and profit remittances. We estimate that more than \$100 billion in capital was sent out of Argentina, Brazil, Mexico, and Venezuela during 1979-83. Lower savings stifled investment by pushing up the cost of funds in unregulated capital markets and causing a shortage of funds in regulated markets.

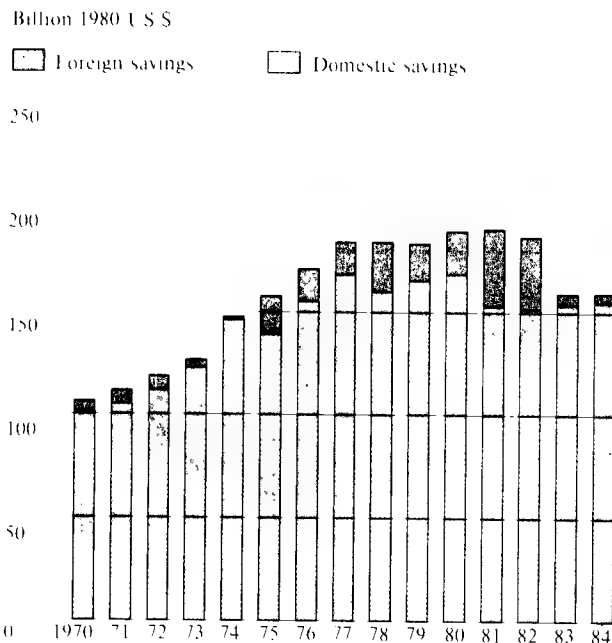
Economic Recession. Our analysis indicates that economic recession was another key factor underlying the recent investment downturn in the key LDC debtors. GDP fell at an average annual rate of about 1 percent during the past four years after growing by nearly 6 percent, on average, during the 1971-80 period (figure 7). This slump in aggregate demand can be traced to deep cuts in government expenditure and a dropoff in consumer spending caused by falling real wages and rising unemployment. Reduced demand led to an investment decline when the expected returns from investment projects plummeted and internally generated investment funds dried up as profits dwindled or turned to losses. When the level of economic activity slowed, capacity utilization in these countries slipped to record lows in the 50-to-60-percent range, putting additional downward pressure on investment.

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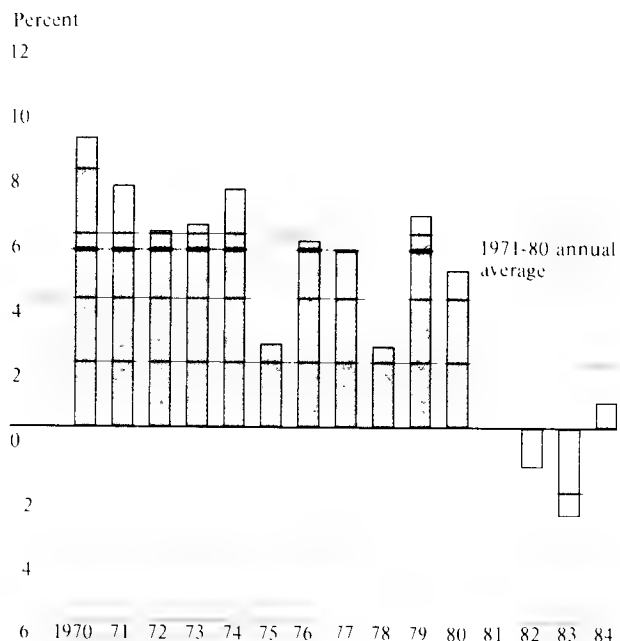
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Figure 6
Key LDC Debtors: Savings,
1970-84



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Figure 7
Key LDC Debtors: GDP Growth,
1970-84



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Heightened Uncertainty. We believe heightened uncertainty in the key LDC debtors during the past few years also contributed to poor investment performance. Financial problems increased economic uncertainty by forcing sudden adjustment on economic systems that evolved over several decades. Investors had difficulty formulating an economic outlook—a vital input to the investment decisionmaking process—when the pace, mechanism, and extent of the economic adjustment were unclear. Much of this increased economic uncertainty arose because governments, which determine the parameters of the economic adjustment, play such a dominant role in the economy. Financial problems also contributed to increased political uncertainty.³ During the period,

there were uneasy transition to civilian rule in Argentina and Brazil; periods of martial law in Peru, Chile, and the Philippines; a military coup in Nigeria; and growing opposition to the ruling party in Mexico. This heightened economic and political uncertainty hampered investment because investors found it impossible to gauge the future returns from prospective investment projects and because massive capital flight restricted the supply of investment funds.

Investment Outlook

Investment during the next five years will play an important role in determining the strength of the expected economic recovery in the key LDC debtors. Our statistical analysis indicates that GDP growth in these countries rose by four-tenths of a percentage point for each percentage point rise in the investment

Government Intervention: Source of Investor Uncertainty

Government intervention in the economies of the key LDC debtors complicates private investment decisions. During the 1970s, the role of government in their economies advanced along two fronts. Government rules and regulations proliferated, severely distorting the allocation of economic resources in the private sector. State enterprises expanded rapidly, many producing goods and services in direct competition with private companies. Given the current level of government economic intervention, investment decisions depend, in large part, on assessments of future government behavior. When assessing long-term investment projects, local investors must anticipate future government rules, regulations, policies, and procedures affecting domestic production, foreign trade, and international finance. Foreign investors bear the additional burden of projecting future government policies relating to foreign direct investment. The dominant role of government in the economy and the uncertainty about future government policies implementing economic adjustment are responsible, we believe, for a large share of current investor uncertainty in the key LDC debtors. []

The following examples illustrate the extent of government intervention in the economies of the key LDC debtors. In the area of international trade and finance, most governments:

- Maintain an "official" exchange rate.
- Provide foreign exchange only for approved transactions.
- Require import and export licenses.
- Set import and export quotas.

- Impose tariffs on imports.
- Provide export subsidies.
- Register capital inflows.
- Approve capital outflows.

Within the domestic economy, governments generally:

- Control prices and provide subsidies.
- Set minimum wages and some employee benefits.
- Link wage increases to inflation.
- Set interest rates on deposits and loans.
- Control the level of domestic and foreign credit.
- Allocate credit to preferred sectors.
- Impose taxes and provide subsidies in selected sectors.
- Monopolize public utility industries.
- Run state enterprises that dominate key sectors.
- Act as sole buyer and seller of major commodities.

In the area of foreign direct investment, many governments:

- Require approval and registration of investment.
- Restrict entry into certain sectors.
- Tax repatriated profits.
- Limit royalty, dividend, and profit remittances.
- Restrict the share of equity ownership.
- Limit access to domestic credit.
- Provide only partial protection of patents, trademarks, and copyrights.
- Set performance requirements—local content, employment, exports, employee training, and technology transfer. []

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rate during the 1970s. Investment will also help determine other important economic variables: the pace of structural adjustment, technological advancement, balance-of-payments positions, and compliance with IMF programs. These variables will in turn affect political events in and US relations with these strategic LDCs. []

Limited Recovery

We believe investment in the key LDC debtors will rebound during the next five years, although it is unlikely that investment growth will be high enough to restore investment to its level before the international financial crisis. We expect investment to grow

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at an average annual rate of 3 to 5 percent during the rest of this decade, a dramatic improvement over the average decline of 8.2 percent registered during the past four years, but well below the 7.3-percent average growth of the 1971-80 period. Even if these countries sustain investment growth of 5 percent during the next five years, only two-thirds of the 1981-84 investment decline would be reversed; real investment in 1989 would still be 9 percent lower than in 1980. We also project that the share of GDP devoted to capital formation will remain around last year's level of 17 percent substantially lower than in 1980. []

On the basis of our analysis of political and economic trends in the key LDC debtors, we expect the following pattern of investment in these countries during the next five years:

- *Continued Public Investment Rationalization.* We believe public investment rationalization, which began after the international financial crisis, will continue, but at a slower pace. Governments will favor projects that improve the balance of payments, yield identifiable short-term economic benefits, or boost the living standards of the lower income groups. Because severe economic problems forced this rationalization, it is likely that some backsliding will occur as economic pressures slowly dissipate. Limited investment funds, however, should minimize backsliding.
- *Uneven Private Investment Recovery.* We believe investment will recover in nearly every industry but at widely varying rates. As demand rises, so too will the expected returns from investment projects. Expected returns will determine the investment growth rate in each industry. There may, however, be a lengthy lag between the demand and investment recoveries because many industries are operating at record-low levels of capacity utilization. Construction and consumer-oriented industries will probably lead the investment recovery. Investment in industries nurtured by government assistance should also remain strong.
- *Public Sector's Role Unchanged.* We foresee no significant change in the public sector's share of

investment. Limited government resources and pressure to maintain spending in the politically sensitive areas of defense and social welfare should rule out major increases in public investment. On the other hand, despite privatization rhetoric, a deeply rooted orientation toward active government participation in the economy should preclude a significant drop in public investment.

- *Minor Role for Foreign Direct Investment.* We believe that foreign investment will rise, possibly to its peak before the international financial crisis, but it will continue to play a minor role in the investment process. It is unlikely that foreign investment will exceed \$6 billion per year or that its share of total investment will surpass 2 percent. The bulk of foreign investment in these countries should flow into Brazil and Mexico. Although the foreign investment environment will slowly improve, major structural impediments will remain. In general, these countries have not addressed the key concerns of foreign investors, the majority of which existed before the international financial crisis.
- *Investment Financed Solely by Domestic Resources.* These countries will probably have to rely almost exclusively on domestic savings to finance future investment. They will be unable to tap the savings of foreigners through foreign borrowing to the extent they did before the international financial crisis. We believe that voluntary commercial lending to these countries will remain sharply curtailed. Loans from official sources are expected to increase only moderately. Consequently, we expect foreign savings to finance no more than 5 percent of investment during the rest of the decade. []

In our judgment, the projected investment rebound will be caused by economic recovery in the key LDC debtors during the next five years. Aggregate demand could grow at an average annual rate of 3 to 5 percent, less than the 6-percent average growth of the 1971-80 period, but a significant improvement over the average decline of about 1 percent during the last four years. This demand recovery should stimulate

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Figure 8
Key LDC Debtors: Five-Year
Investment Outlook

Investment growth

— Indicates projected range, 1985-89
• Indicates average, 1971-80

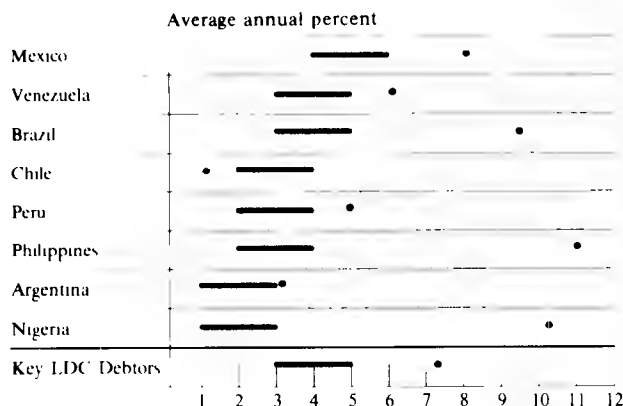


Figure 9
Key LDC Debtors: Rankings
by Key Factors Underlying
the Investment Outlook

Ranking relative to other key LDC debtors

• Highest

• Lowest

	Demand prospects	Availability of investment funds	Stability of political-economic system	Investment prospects
Argentina	•	•		•
Brazil				
Chile				
Mexico	•		•	•
Nigeria	•		•	•
Peru			•	
Philippines				
Venezuela		•		

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investment by increasing the expected returns from investment projects. We foresee minimal improvement, however, in the other key factors affecting the pace of investment. Sluggish domestic savings and limited access to foreign savings suggest that the high cost/limited availability of investment funds will continue to put a damper on capital formation. A significant improvement in the underlying level of political-economic stability in these countries is also unlikely. The level of investor uncertainty should fall marginally, however, as the economic pressures associated with economic adjustment dissipate.

Individual Country Outlooks

Our analysis, described below, indicates that investment growth in the key LDC debtors will vary widely across countries during 1985-89; our projections of average annual investment growth vary between 1 and 6 percent (figure 8). These projections were developed by ranking each country according to the key factors that will determine investment growth during the period —aggregate demand prospects, cost/availability of investment funds, and stability of

the political-economic system (figure 9). On the basis of these rankings, investment growth prospects were assessed and a range of average annual investment growth was set for each country. Our projections were then compared to, and in some cases revised in light of, the investment growth forecasts of major economic consulting firms and other country experts. Given the volatility of investment spending, our projections should be viewed as benchmarks that indicate the underlying trend in investment growth. As has historically been the case, annual investment growth may fluctuate dramatically around five-year averages.

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We believe *Mexico* will lead the key LDC debtors with investment growth averaging 4 to 6 percent annually during the next five years, at least 25 percent slower than during the 1971-80 period. Although problems exist, Mexico's demand prospects

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and political-economic stability are ranked higher than those of the other countries. After a period of harsh austerity, demand is projected by the major economic consulting firms to grow at an average annual rate approaching 5 percent during 1985-89. Although opposition parties are gaining strength, the long tenure of the government party should lead to relative political-economic stability. Regarding the availability of investment funds, only Venezuela is ranked higher. Mexico's banking system, mature by LDC standards, is relatively efficient at mobilizing domestic savings. [REDACTED]

[REDACTED] Inflation, devaluation fears, and capital flight will continue to dampen domestic savings growth and limit the supply of funds available for investment. [REDACTED]

In *Venezuela* and *Brazil* annual investment growth could average 3 to 5 percent through 1989. Venezuela's investment growth could come within a percentage point of the average annual rate of the 1970s; investment in Brazil may grow at least 50 percent slower. With demand projected to grow at an annual rate of about 4 percent, the demand prospects of these countries are relatively good. Venezuela's traditionally high savings rate, low inflation, and relatively stable currency earned Caracas the highest ranking for availability of investment funds. Investment funds may be scarce in Brazil because of triple-digit inflation and high devaluation risk. Given Venezuela's two decades of democracy and the broad popular and military support for the constitutional process in Brazil, the future political-economic environment of these two countries should be relatively stable. [REDACTED]

In *Peru*, *Chile*, and the *Philippines*, we believe investment will grow 2 to 4 percent a year through 1989. Investment growth in the Philippines may fall dramatically from the 11.2-percent annual rate registered during the 1970s. In contrast, Chile's investment growth rate may rise moderately from an average of 1.1 percent during that period. Demand prospects in these countries are considered fair—GDP is expected to grow, on average, about 3 percent a year. Historically low savings in Chile and inflation and devaluation concerns in Peru and the Philippines should limit the supply of investment funds. In Peru

and the Philippines, inflation/devaluation rates were roughly 110 and 60 percent, respectively, last year. Although Peru's domestic problems are more serious, instability in all three countries should stifle investment growth. In Peru, the nationalistic, left-leaning policies of President-elect Garcia, the Sendero Luminoso insurgency, and a history of shifting economic policies raise serious concerns about political-economic stability. In the Philippines, a country with a more stable economic system, the Aquino assassination, the succession question raised by President Marcos's ill health, and a growing insurgency have boosted the level of investor uncertainty. In Chile, we believe rising opposition to the repressive rule of President Pinochet will keep the level of political-economic uncertainty high. [REDACTED]

Average annual investment growth in *Argentina* and *Nigeria* should be slower than in the other countries, averaging only 1 to 3 percent through 1989. Argentina's investment growth may match its rate of the 1970s, but Nigeria's rate could be a full 7 percentage points lower. Demand in these countries should be sluggish, expanding at an average of about 2 percent a year. Historically, low savings have restricted the supply of investment funds in these countries. This trend should continue as inflation—about 600 and 30 percent last year in Argentina and Nigeria, respectively—and devaluation risk discourage domestic saving and spur further capital flight. Although Argentina has recently taken bold steps to reduce runaway inflation, the country's economic system may remain unstable. Political stability, however, may improve marginally under President Alfonsin. Although economic crisis could bring down his government, if the economy continues to limp along, Alfonsin may be the first democratically elected leader since 1952 to complete his term. Nigeria, on the other hand, has a more stable economic system, but its political prospects are dismal. Lagos probably will continue to suffer from numerous political problems: divisions in the ruling military, student dissatisfaction, and regional tension. [REDACTED]

Even if investment in each country grows at the highest projected rate through 1989, only three key

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LDC debtors will regain the ground lost since the international financial crisis (figure 12 at the end of appendix A). Venezuela, the Philippines, and Nigeria could have investment in 1989 that is 13, 7, and 2 percent higher, respectively, than before the crisis. Their full recovery will result from investment downturns that were less severe than the other countries' rather than particularly rapid investment growth during 1985-89. In contrast, we project investment in Argentina, which should remain sluggish through 1989 following its precipitate decline in the 1981-84 period, will still be at least 46 percent lower in 1989 than in 1980. Peru and Chile may regain more lost ground than Argentina, but their investment should still fall about 30 percent short of precrisis peaks. The top two debtors, Mexico and Brazil, aided by relatively high investment growth, should regain all but about 15 and 10 percent, respectively, of the ground lost following international financial problems. []

Factors Affecting the Outlook

Our investment growth projections are sensitive to five key global economic variables: oil prices, interest rates, world GDP growth, commodity prices, and commercial bank lending. Through the balance of payments, changes in these variables could affect the required level of domestic austerity, in turn affecting the pace of investment. Shifts in these global economic conditions generally will have different effects on the investment outlook of individual key LDC debtors. Specifically:

- *Falling Oil Prices.* An oil price slump would slow investment growth in the oil exporters—Mexico, Venezuela, Nigeria, and Peru—and free more resources for investment in the oil importers—Brazil, Chile, and the Philippines. Oil price changes would have little direct effect on Argentina because of Buenos Aires' energy independence.
- *Rising Interest Rates.* A runup of interest rates would probably choke off investment growth in all eight countries. Because of their lower interest payment burden, however, Venezuela and Nigeria are less sensitive to interest rate increases. The other countries are highly vulnerable. Last year, each one devoted more than one-third of their foreign exchange earnings to interest payments.

- *Slower World GDP Growth.* Because the key LDC debtors are dependent on exports earnings, a worldwide recession, or even rising protectionism, could have considerable impact on their investment growth. Because nonoil exports react more to changing economic conditions, we would expect investment in Argentina, Brazil, Chile, and the Philippines to fall off more than investment in the oil exporters.

- *Commodity Price Slump.* In several countries, a drop in the price of a key nonoil commodity could have significant impact on investment. The investment outlook for Chile, and Peru to a lesser extent, would be downgraded considerably if copper prices fall sharply. As Buenos Aires becomes increasingly dependent on grain exports, sagging grain prices could damage Argentina's investment prospects.

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- *Resumption of Bank Lending.* Although unlikely, a resumption of voluntary commercial bank lending to some countries would improve their investment outlook significantly. Recent country risk ratings indicate that Mexico and Venezuela would be the first countries, if any, to secure voluntary bank lending. With dismal credit ratings, Argentina and Chile would probably be the last countries to secure loans.

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Our investment projections are also highly sensitive to political conditions in the key LDC debtors. The lackluster investment performance of Peru, Argentina, and Chile during the 1970s can be traced directly to political upheaval that spilled over into the economy. During periods of political instability, investment declines because investors find it impossible to formulate an economic outlook—the key to gauging the future returns from prospective investment projects. Heightened political uncertainty also spurs capital flight, choking off investment as the pool of funds available for project financing shrinks. Our projections assume the most likely political scenario—no significant improvement or deterioration in the underlying level of political stability in these countries

during 1985-89. In the event of a major shift in a country's political structure, investment growth could differ significantly from our projection. []

An unforeseen shift in the pace of domestic economic policy reform in the key LDC debtors would also invalidate our investment projections. We believe that inefficient economic policies are a major roadblock preventing the key LDC debtors from achieving their full economic potential. Our previous research indicates that the Latin American debtors have high potential for rapid industrialization; the Philippines and Nigeria have somewhat lower industrialization potential.⁴ Relative to other LDCs, most of these countries have laid a strong foundation for development, particularly in the areas of health, education, and domestic infrastructure. They continue, however, to follow economic policies hampering economic growth. If they abandoned their current policies of active intervention in and stringent regulation of their economies, we believe that within several years there could be a surge in economic activity, caused in part by a dramatic increase in investment. However, given the short-run economic and political costs, we foresee minimal reform of domestic economic policy during 1985-89. []

Implications

The investment slump following the international financial crisis and the historically slow investment growth projected through 1989 portend a number of future problems for these eight countries, which could complicate US foreign policy. []

Slower Economic Growth

Because investment is required to expand the productive capacity of an economy, slow investment growth in the key LDC debtors may limit their rate of economic growth and development in the longer term. Slow economic growth, coupled with rapid population growth, could lead to minimal improvement or possibly continued decline in living standards. On the heels of the sharp drop in living standards registered recently in some countries, any further decline in the

standards of living could compound existing political and economic tensions. In the short term, however, slower investment should not limit economic growth because of the record-low levels of capacity utilization in most countries. []

Slower Structural Adjustment

Slow investment growth may impede structural adjustment in the key LDC debtors. In an attempt to solve their international financial problems and, more important, to qualify for badly needed bank loans, these countries have embarked on structural adjustment. If actively pursued, this economic restructuring will require significant investment as capital stock must be built up in emerging areas and replaced in areas where the existing capital stock has become obsolete. Given our investment projections, capital shortages may arise and slow the pace of structural adjustment. Slower structural adjustment could jeopardize compliance with IMF programs in the short term and cause international financial problems and economic inefficiency to linger over the longer term. []

Slower Technology Absorption

Slow investment growth may limit the transmission of new technology in the key LDC debtors. Ongoing investment is necessary if developing countries are to capitalize on technological advances. Slower investment growth in these countries carries with it a slower rate of technology absorption. With slow investment growth, their capital stocks become outmoded and the countries fall further behind technologically. By setting up barriers to foreign direct investment, these countries compound the problem by blocking a key conduit for technological advances. If technology absorption slows, economic growth may be slower and trade competitiveness may be lost, further aggravating existing international financial problems. []

If these problems develop, US relations with the key LDC debtors could become more contentious. Specifically:

- *Pressure on US Policy.* There could be increased pressure on Washington to take these countries'

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Economic Policy Reform: Limited Progress to Date

We believe that the elimination of inefficient economic policies in the key LDC debtors would precipitate a surge in investment that would spark economic growth. However, economic policy reform in these countries since the international financial crisis has been limited. These LDCs successfully reformed policies affecting the balance of payments, but their success in curing domestic economic ills through policy reform was less dramatic.

Through a mixture of administrative controls and policy reform, these countries slashed their aggregate current account deficit by nearly 90 percent since 1981. In 1984, the current accounts of Mexico and Venezuela swung into surplus and the other countries' deficits were 40 to 95 percent lower than their peak. Mexico, Brazil, and Venezuela improved their current account balance by \$8-10 billion each in the year following financial crisis. This improvement can be traced to strict control of foreign exchange and imports and dramatic currency devaluations. Seven countries sharply devalued their currencies, in real terms, in 1982 or 1983 after several years of steady appreciation. Nigeria, however, continues to steadfastly resist real devaluation.

The aggregate fiscal deficit in these countries, which grew by about 100 and 20 percent in 1981 and 1982, began to slowly decline in 1983 as austerity measures took hold. Mexico, Venezuela, and the Philippines made the most progress. In contrast, deficits in Argentina and Brazil continued to grow. The countries addressed fiscal deficits by first slashing investment spending by 30 to 50 percent in 1983. They then turned to current expenditures, reducing real wages, limiting subsidies, and scaling back state enterprises. In Brazil, for example, Law 2065 was passed limiting wage indexation and the Special Secretariat of State Company Control was formed to scrutinize the budgets of some 300 public companies. Increased attention was also paid to tax collection. To combat tax

evasion, Mexico formed a 3,000-lawyer task force and stiffened the penalties for tax cheating.

Although some key LDC debtors have taken steps to reform their financial systems, most have made minimal progress in controlling money supply growth. Rapid money supply growth caused their average inflation rate, excluding Argentina, to double during the past four years, reaching 70 percent in 1984. Inflation topped 600, 200, and 110 percent last year in Argentina, Brazil, and Peru, respectively. Rapid money supply growth can be traced to increased pressure on central banks to expand domestic credit to cover fiscal deficits previously financed by foreign borrowing. More progress has been made in the area of structural reform. Mexico, Brazil, and the Philippines have taken some steps to consolidate or deregulate their financial systems. Like the rest of the countries, however, their financial systems remain highly regulated.

Some key LDC debtors have made progress in reforming highly visible economic policies that distort the allocation of resources, but most other supply-distorting policies and procedures remain. In the politically sensitive area of price controls and subsidies, the degree of reform spans the spectrum: Argentina relied increasingly on price controls and subsidies under Alfonsin; Brazil pursued an "off again, on again" course; Mexico, Venezuela, and the Philippines reduced the scope of price controls and subsidies, concentrating on staple goods. In contrast, there has been little variation in the degree of reform in less-visible supply policies. Most supply-distorting taxes, tariffs, producer pricing policies, trade controls, administrative procedures, and legislative and institutional constraints remain. In fact, given the increased regulation of international trade and finance, supply distortion may actually be on the rise.

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needs into account during the formulation of US monetary, fiscal, and trade policies.

- *Pleas for US Assistance.* They could press the United States for increased development assistance. In a cash-flow bind, the United States may be forced into the role of "lender of last resort."
- *United States Caught in Crossfire.* If debtor-creditor conflicts arise, the United States could be caught in the middle; both debtors and creditors would pressure Washington to support their positions.

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Appendix A

Investment Trends Before the Financial Crisis

Impressive Investment Growth

Investment in the key LDC debtors rose steadily during the decade before the international financial crisis as the countries committed an increasing share of their economic resources to expanding the productive capacity of their economies. Despite deteriorating investment climates in some countries, investment grew at an average annual rate of 7.3 percent during the 1971-80 period—some 1.5 percentage points faster than during the previous decade. On average, the pace of investment surpassed the average annual growth rate of GDP by nearly 2 percentage points. Consequently, the share of GDP devoted to expansion of the countries' capital stock rose to 23.5 percent in 1980—up from 19.8 percent in 1970. []

The *Philippines*, *Nigeria*, and *Brazil* led the key LDC debtors with average annual investment growth of 11.2, 10.4, and 9.6 percent, respectively. Investment in the Philippines rose steadily following the imposition of martial law, which quelled the political unrest that threatened the Marcos regime in the early 1970s. Nigeria's rapid investment growth can be traced to a dramatic expansion of state enterprises, especially in the energy sector. Private-sector investment, however, was stifled by nationalization fears and political instability—coups, attempted coups, and a shaky transition to civilian rule. Powered by demand growth averaging 9 percent per year, strong domestic savings growth, and more than \$40 billion of net foreign borrowing during the 1976-80 period, investment in Brazil shot up from \$23 billion in 1970 to \$58 billion in 1980 []

In *Mexico* and *Venezuela*, investment grew at an average annual rate of 8.3 and 6.1 percent, respectively. Mexican investment expanded until financial problems arose in 1976-77 and then rose sharply through the rest of the decade, financed by rising oil revenues and foreign borrowing. Complementing rising state enterprise investment, much of it in the oil industry, private-sector investment was strong because of rising

demand, attractive financing, and a stable political-economic system. In Venezuela, investment sagged twice during the decade, when Caracas joined the Andean Pact in 1974 and when the Herrera administration embarked on economic austerity during 1978-80. A proliferation of state enterprises and a surge in foreign borrowing, which caused foreign debt to increase tenfold during the 1976-80 period, precipitated a jump in public-sector investment. Private-sector investment was limited by modest demand growth and a shrinking pool of locally generated investment funds, the result of massive capital flight. []

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Investment in *Peru*, *Argentina*, and *Chile* was sluggish during the 1970s, growing at average annual rates of 5.1, 3.1, and 1.1 percent, respectively. Economic and political upheaval was the root cause of this lackluster investment performance: Peru adopted Plan Inca in 1974—a plan for the eventual transformation of all economic institutions along socialist lines; Juan and Isabel Peron led Argentina down the socialist path until the military intervened in 1976 to suppress growing civil unrest. In Chile, outbreak of virtual civil war in 1973, during the term of socialist President Allende, was followed by a five-year “state of emergency.” Investment in these countries was also hampered by slack demand and scarce investment funds. Demand grew only 2 to 3 percent a year, on average, during this period. Domestic savings slumped as accelerating inflation eroded the returns to savers. The average annual inflation rate in Argentina and Chile exceeded 120 percent. []

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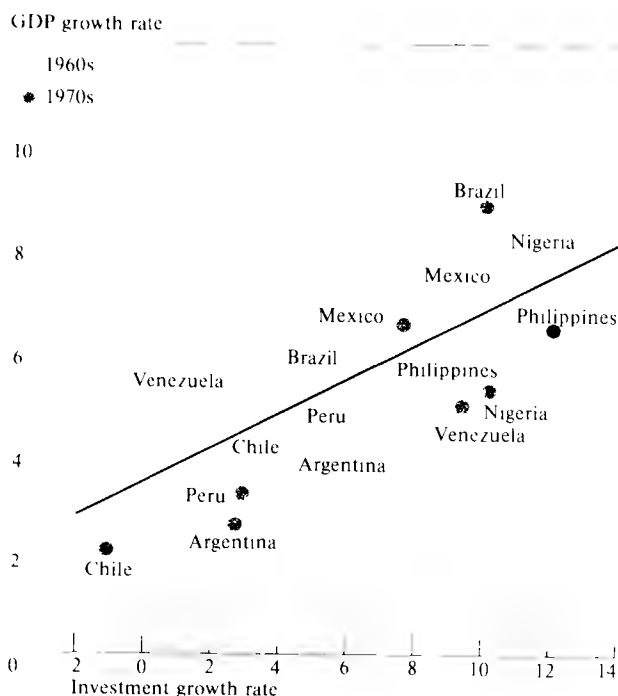
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Supporting the view that investment growth is a major determinant of the pace of economic development, the historical relationship between investment and GDP growth in the key LDC debtors is strong (figure 10). Although a wide range of factors influence the pace of economic development, investment is often the key because capital generally is the scarcest of all

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Figure 10
Key LDC Debtors: GDP and
Investment Growth, 1960s and 70s



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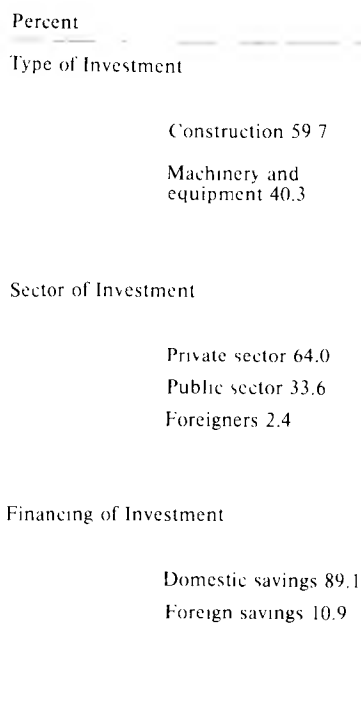
the factors required to expand production in LDC economies over the longer term. Our statistical analysis indicates that investment growth explains nearly 70 percent of the variation in GDP growth in these countries during the 1970s. Moreover, we estimate that GDP growth rose by four-tenths of a percentage point for each 1-percentage-point rise in the rate of investment during the decade. Although the link between the two is imperfect, the rate of investment is an important predictor of GDP growth, which in turn is a key indicator of future economic and political conditions in LDCs.

Investment Patterns Evolve

As the volume of investment in the key LDC debtors rose, a pattern of investment evolved during the decade before the international financial crisis. Important trends in the type, sector, and financing of investment developed during this period.

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Figure 11
Key LDC Debtors: Pattern
of Investment, 1980



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Types of Projects

Although investment projects in the private sector of the key LDC debtors were small and highly diversified during the 1970s, public-sector investment was generally concentrated in large construction projects. This concentration may explain the rise in the construction share of investment that occurred in most countries during the period (figure 11). These projects fall into four general categories:

- **Resource Projects.** In several countries, there was large investment in projects exploiting mineral resources. The surge in petroleum output in Mexico and Nigeria was the result of massive investment in the oil sector during the 1970s. In Peru and Chile, investment funds were allocated to large mining projects like Peru's Cuajone copper mine.

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Table 1
Key LDC Debtors: Sectoral Investment Trends

	Investment (billion 1980 US \$)		Public Share of Investment (percent)		Foreign Share of Investment (percent)	
	1970	1980	1970	1980	1970	1980
Argentina	25.5	34.8	38.0	41.6	0.1	1.9
Brazil	23.3	58.4	18.5	10.4	3.5	3.2
Chile	4.4	4.9	56.9	26.5	NA	4.3
Mexico	19.6	43.7	33.0	43.0	3.2	4.9
Nigeria	7.9	21.2	29.3	62.0	5.1	NA
Peru	1.7	2.8	27.3	32.0	NA	1.0
Philippines	3.0	8.7	10.9	16.2	NA	2.9
Venezuela	8.3	15.0	23.2	50.0	NA	0.4

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- *Infrastructure Projects.* Large projects that bolster energy, transportation, and communication networks were given priority. Ambitious projects in this category include Brazil's Trans-Amazon Highway and Itaipu hydroelectric complex. More resources were also devoted to improving previously ignored residential housing stocks.
- *Industrial Projects.* A substantial amount of public funds were invested in heavy industry facilities like steel mills, aluminum smelters, petrochemical plants, paper mills, and oil refineries. Rising investment in these projects help place Brazil, Mexico, Venezuela, and the Philippines among the most rapidly industrializing countries of the 1970s.
- *"Glamour" Projects.* Investment funds were also sunk into large "prestige" projects that probably were not justified on economic grounds. Such projects include international airports, fancy hotels, subway systems, and superhighways. Brazil and Argentina also embarked on costly nuclear power programs.

Roles of Public and Foreign Sectors Rise

During the 1971-80 period, the public sector's role in the investment process expanded rapidly in most key

LDC debtors. As a group, the public sector's share of investment reached 33.6 percent in 1980—up from 29.9 percent in 1970. Public-sector involvement, however, varied widely across countries (table 1). In 1980 the public sector's share was highest, 40 to 60 percent, in Nigeria, Venezuela, Mexico, and Argentina, and lowest, 10 to 20 percent, in Brazil and the Philippines. During the decade the share rose in six countries by an average of 14 percentage points. The share jumped some 30 percentage points to 62 and 50 percent in Nigeria and Venezuela, respectively, as state enterprises, especially those in the energy sector, expanded rapidly. In contrast, a shift away from socialist ideology in Chile and rapid private-sector growth in Brazil caused the share to drop by 30.4 and 8.1 percentage points, respectively.

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Although foreign direct investment in the key LDC debtors increased during the decade, foreign investors played a minor role in the capital formation process. Foreign investment reached \$4.5 billion in 1980—\$3 billion higher than in 1970. Brazil and Mexico, with about \$2 billion of foreign investment each, accounted for nearly 90 percent of the total. The foreign share of

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Table 2
Key LDC Debtors: Trends in Investment Financing

	Domestic Savings (billion 1980 US \$)		Foreign Savings ^a (billion 1980 US \$)		Foreign/Total (percent)	
	1970	1980	1970	1980	1970	1980
Argentina	25.7	28.7	0.3	4.8	1.2	14.3
Brazil	24.2	53.9	1.6	12.8	6.3	19.2
Chile	2.3	4.7	0.2	2.0	7.1	29.4
Mexico	20.5	42.6	2.1	8.2	9.2	16.1
Nigeria	8.0	24.8	0.7	-4.2	8.2	NA
Peru	2.9	3.0	-0.4	-0.1	NA	NA
Philippines	3.7	9.6	0.1	2.0	2.5	17.5
Venezuela	14.1	1.4	0.2	-4.7	1.4	NA

^a Negative values indicate net savings outflows to foreigners.

investment, however, was only 2.4 percent in 1980, up a fraction from 1970. The share rarely exceeded 5 percent in any country during the period. Excessive government regulation and high country risk appear to be the root causes of sluggish foreign investment performance. Many of these countries adopted highly restrictive foreign investment regulations, like those in the Andean Pact, to shelter local industries and to avoid "foreign economic domination." In others, political instability and nationalization jitters clouded the foreign investment climate.

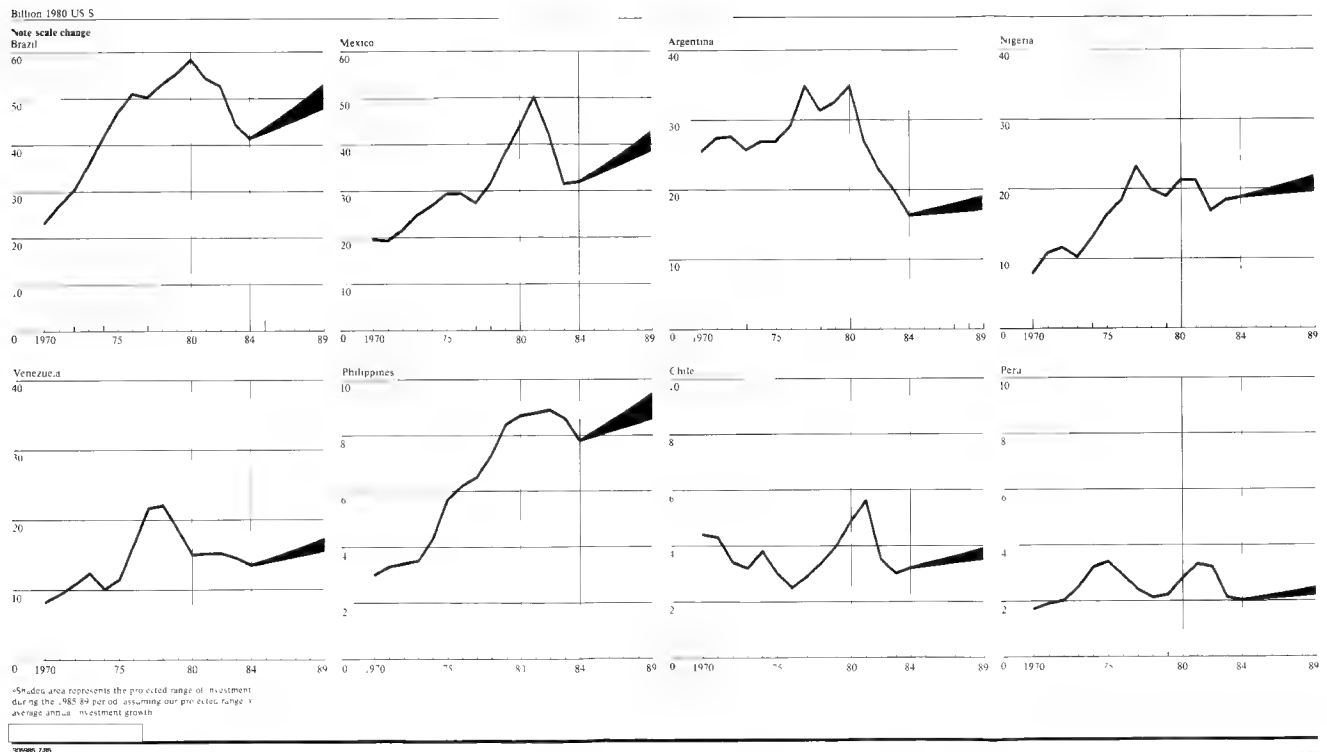
foreign savings financed about 11 percent of investment in 1980—up from 4.5 percent in 1970. Chile's reliance on foreign savings to finance investment was far greater than that of the other countries. Nearly 30 percent of investment in Chile was financed by foreign savings in 1980, compared with an average of 17 percent in the other countries with foreign savings inflows.

Growing Dependence on Foreign Capital

Although the contribution of foreign direct investors was small, the key LDC debtors relied increasingly on foreign savings, secured mostly through foreign borrowing, to finance domestic investment during the 1970s. These LDCs absorbed more than \$20 billion in foreign savings in 1980—four times more than a decade earlier. About \$26 billion of foreign savings flowed into the top three debtors—Argentina, Brazil, and Mexico—that year (table 2). In contrast, Nigeria and Venezuela, with surpluses because of rising oil revenues and low debt service, each transferred \$4.5 billion of their savings to foreigners. As a group,

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Figure 12
Key LDC Debtors: Investment, 1970-89*



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Appendix B
Supporting Data

Appendix B

Supporting Data ^a

Table B-1

Billion 1980 US \$

Key LDC Debtors: Volume of Investment

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	52.6	65.1	93.7	143.1	156.1	169.2	170.8	178.0	189.5	185.3	165.1	142.2	134.8
Argentina	15.9	16.6	25.5	26.9	29.1	34.8	31.3	32.5	34.8	26.8	22.7	19.8	16.3
Brazil	13.1	14.1	23.3	47.1	51.1	50.3	53.1	55.4	58.4	54.3	52.7	44.4	41.4
Chile	2.9	3.4	4.4	3.0	2.5	2.9	3.4	4.0	4.9	5.6	3.5	3.0	3.2
Mexico	8.2	12.5	19.6	29.3	29.4	27.4	31.6	38.0	43.7	50.1	42.1	31.5	31.9
Nigeria	2.0	4.4	7.9	16.2	18.4	23.2	19.9	18.9	21.2	21.2	16.8	18.3	18.7
Peru	1.0	1.7	1.7	3.4	2.9	2.4	2.1	2.2	2.8	3.3	3.2	2.1	2.0
Philippines	1.7	2.7	3.0	5.7	6.2	6.5	7.3	8.4	8.7	8.8	8.9	8.6	7.8
Venezuela	7.8	9.7	8.3	11.5	16.5	21.7	22.1	18.6	15.0	15.2	15.2	14.5	13.5

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Table B-2

Percent

Key LDC Debtors: Average Annual Growth Rate of Investment

	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	4.3	6.5	10.2	9.1	8.4	0.9	4.2	6.5	-2.2	-10.9	-13.9	-5.2
Argentina	4.4	5.4	0	8.2	19.6	-10.1	3.8	7.1	-23.0	-15.3	-12.8	-17.7
Brazil	0	4.5	12.9	8.5	-1.6	5.6	4.3	5.4	-7.0	-2.9	-15.7	-6.8
Chile	-5.6	7.3	-21.1	-16.7	16.0	17.2	17.6	22.5	14.3	-37.5	-14.3	6.7
Mexico	6.8	7.7	9.3	0.3	-6.8	15.3	20.3	15.0	14.6	-16.0	-25.2	1.3
Nigeria	15.8	43.6	24.6	13.6	26.1	-14.2	-5.0	12.2	0	-20.8	8.9	2.2
Peru	21.4	6.2	6.2	-14.7	-17.2	-12.5	4.8	27.3	17.9	-3.0	-34.4	-4.8
Philippines	3.8	-11.8	32.6	8.8	4.8	12.3	15.1	3.6	1.1	1.1	-3.4	-9.3
Venezuela	4.3	-4.6	13.9	43.5	31.5	1.8	-15.8	-19.4	1.3	0	-4.6	-6.9

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^a Because of rounding, components may not add to totals shown.

Table B-3

Percent

Key LDC Debtors: Investment as a Share of GDP

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	19.9	19.1	19.8	22.6	23.4	24.0	23.6	23.1	23.5	22.9	20.7	18.3	17.2
Argentina	20.2	17.0	21.2	19.4	21.1	23.7	22.1	21.5	22.9	18.8	16.8	14.3	11.5
Brazil	22.0	19.0	21.5	26.5	26.2	24.4	24.6	24.1	23.5	22.3	21.4	18.6	17.2
Chile	20.4	19.9	20.5	15.6	12.6	13.3	14.4	15.6	17.8	19.2	14.0	12.1	12.4
Mexico	16.4	17.8	19.9	21.7	20.9	18.8	20.1	22.1	23.5	24.9	21.0	16.5	16.4
Nigeria	10.7	18.2	15.7	24.3	24.9	29.4	26.7	24.0	26.8	28.3	22.9	26.1	27.0
Peru	11.5	14.4	12.0	19.2	16.0	13.3	11.7	11.8	14.4	16.3	15.8	11.7	11.1
Philippines	14.4	17.8	15.4	21.8	22.2	21.8	23.1	24.9	24.6	24.0	23.7	22.5	21.5
Venezuela	34.8	32.0	20.9	22.8	30.2	37.2	36.8	30.7	25.2	25.5	25.3	25.3	23.6

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Table B-4

Billion 1980 US \$

Key LDC Debtors: Investment in Construction

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	34.1	38.5	54.8	80.0	89.8	99.7	103.7	107.0	113.1
Argentina	9.5	9.3	15.9	16.8	18.6	20.5	20.2	20.2	21.9
Brazil	10.8	9.6	13.5	24.4	28.9	31.3	33.6	35.2	37.3
Chile	1.8	2.3	2.7	1.8	1.4	1.4	1.6	1.9	2.4
Mexico	5.1	7.0	11.2	15.9	16.5	16.1	18.3	20.7	23.3
Nigeria	1.3	2.8	4.7	10.2	10.5	13.8	12.1	11.8	13.5
Peru	0.5	0.8	0.8	1.6	1.5	1.3	1.2	1.2	1.5
Philippines	1.0	1.5	1.2	2.3	3.0	3.4	3.5	4.0	4.1
Venezuela	4.2	5.2	4.8	7.0	9.4	12.0	13.2	11.9	9.2

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Table B-5

Percent

Key LDC Debtors: Construction Investment as a Share of Total Investment

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	64.8	59.2	58.5	55.9	57.5	58.9	60.7	60.1	59.7
Argentina	59.5	55.8	62.4	62.5	63.9	58.9	64.4	62.3	62.9
Brazil	82.3	68.4	58.0	51.9	56.5	62.2	63.3	63.5	63.9
Chile	61.2	67.6	61.5	59.2	56.7	48.9	46.8	47.8	48.2
Mexico	62.2	56.3	57.3	54.3	56.1	58.6	57.8	54.5	53.3
Nigeria	64.5	62.9	59.0	62.9	57.2	59.6	60.9	62.3	63.7
Peru	54.8	49.5	48.8	47.3	50.5	54.4	56.9	55.5	55.2
Philippines	57.5	55.2	39.0	40.9	49.1	51.8	48.5	47.3	47.6
Venezuela	53.5	53.7	57.9	60.7	57.1	55.2	59.6	64.2	61.1

25X1

Table B-6

Billion 1980 US \$

Key LDC Debtors: Investment in Machinery and Equipment

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	18.5	26.6	38.9	63.1	66.3	69.5	67.1	71.0	76.4
Argentina	6.4	7.3	9.6	10.1	10.5	14.3	11.1	12.3	12.9
Brazil	2.3	4.5	9.8	22.7	22.2	19.0	19.5	20.2	21.1
Chile	1.1	1.1	1.7	1.2	1.1	1.5	1.8	2.1	2.5
Mexico	3.1	5.5	8.4	13.4	12.9	11.3	13.3	17.3	20.4
Nigeria	0.7	1.6	3.2	6.0	7.9	9.4	7.8	7.1	7.7
Peru	0.5	0.9	0.9	1.8	1.4	1.1	0.9	1.0	1.3
Philippines	0.7	1.2	1.8	3.4	3.2	3.1	3.8	4.4	4.6
Venezuela	3.6	4.5	3.5	4.5	7.1	9.7	8.9	6.7	5.8

25X1

Table B-7

Percent

Key LDC Debtors: Investment in Machinery and Equipment as a Share of Total Investment

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	35.2	40.8	41.5	44.1	42.5	41.1	39.3	39.9	40.3
Argentina	40.5	44.2	37.6	37.5	36.1	41.1	35.6	37.7	37.1
Brazil	17.7	31.6	42.0	48.1	43.5	37.8	36.7	36.5	36.1
Chile	38.8	32.4	38.5	40.8	43.3	51.1	53.2	52.2	51.8
Mexico	37.8	43.7	42.7	45.7	43.9	41.4	42.2	45.5	46.7
Nigeria	35.5	37.1	41.0	37.1	42.8	40.4	39.1	37.7	36.3
Peru	45.2	50.5	51.2	52.7	49.5	45.6	43.1	44.5	44.8
Philippines	42.5	44.8	61.0	59.1	50.9	48.2	51.5	52.7	52.4
Venezuela	46.5	46.3	42.1	39.3	42.9	44.8	40.4	35.8	38.9

25X1

Table B-8

Billion 1980 US \$

Key LDC Debtors: Investment in the Public Sector

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	15.3	19.1	28.0	43.1	54.3	59.9	59.1	57.3	63.7
Argentina	4.0	5.1	9.7	10.8	13.4	15.6	14.3	13.4	14.5
Brazil	2.7	3.5	4.3	7.4	8.6	8.5	7.6	6.4	6.1
Chile	1.2	1.6	2.5	2.2	1.6	1.5	1.5	1.3	1.3
Mexico	3.3	4.0	6.5	12.1	11.2	10.4	13.7	16.1	18.8
Nigeria	1.0	1.4	2.3	5.7	12.4	15.1	13.0	11.5	13.1
Peru	0.1	0.2	0.5	1.2	1.0	0.8	0.6	0.7	0.9
Philippines	0.3	0.3	0.3	0.7	0.7	0.8	0.9	1.1	1.4
Venezuela	2.7	2.8	1.9	2.9	5.5	7.1	7.4	6.7	7.5

25X1

Table B-9

Percent

Key LDC Debtors: Public-Sector Share of Total Investment

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	29.1	29.3	29.9	30.1	34.8	35.4	34.6	32.2	33.6
Argentina	25.1	30.9	38.0	40.1	46.1	44.8	45.6	41.1	41.6
Brazil	20.7	24.9	18.5	15.8	16.8	16.9	14.4	11.6	10.4
Chile	41.2	48.4	56.9	73.7	62.8	53.4	45.5	33.3	26.5
Mexico	40.2	32.4	33.0	41.4	38.1	38.1	43.5	42.4	43.0
Nigeria	50.4	31.6	29.3	35.0	67.4	65.1	65.2	60.8	62.0
Peru	9.4	14.3	27.3	36.3	33.8	32.3	28.2	31.8	32.0
Philippines	15.3	11.3	10.9	12.0	11.9	11.8	11.7	13.3	16.2
Venezuela	35.2	28.6	23.2	25.6	33.3	32.7	33.7	36.2	50.0

25X1

Table B-10

Billion 1980 US \$

Key LDC Debtors: Investment in the Private Sector by Locals

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	36.3	44.7	64.2	95.5	99.0	105.0	107.1	115.3	121.3
Argentina	11.7	11.4	15.8	16.0	15.5	19.0	16.7	18.9	19.7
Brazil	10.0	10.2	18.2	37.9	40.4	39.4	43.0	46.3	50.5
Chile	1.6	1.8	2.1	0.7	0.9	1.3	1.6	2.4	3.4
Mexico	4.6	7.9	12.5	16.3	17.3	16.2	16.8	20.4	22.8
Nigeria	0.9	2.6	5.2	10.0	5.5	7.5	6.7	7.1	8.8
Peru	0.9	1.4	1.4	1.7	1.7	1.6	1.5	1.4	1.9
Philippines	1.5	2.4	2.7	4.9	5.3	5.4	6.2	7.1	7.0
Venezuela	5.1	6.9	6.4	8.0	12.2	14.6	14.6	11.8	7.4

25X1

~~Confidential~~**Table B-11****Key LDC Debtors: Local Private Investment
as a Share of Total Investment***Percent*

	1960	1965	1970	1975	1976	1977	1978	1979	1980
Total	69.0	68.6	68.5	66.8	63.4	62.0	62.7	64.8	64.0
Argentina	73.8	68.5	61.9	59.5	53.4	54.7	53.4	58.2	56.5
Brazil	76.3	72.5	78.0	80.4	79.1	78.3	81.0	83.5	86.4
Chile	54.3	54.3	46.6	24.0	37.3	45.6	47.9	59.9	69.2
Mexico	55.7	63.5	63.8	55.8	59.0	59.2	53.3	53.7	52.1
Nigeria	45.7	60.0	65.6	61.5	30.1	32.4	33.5	37.4	41.4
Peru	88.0	80.3	80.7	51.0	58.3	64.7	70.3	64.6	67.0
Philippines	88.5	89.6	90.7	85.6	85.2	83.6	85.0	84.1	80.9
Venezuela	65.6	71.3	77.3	69.4	74.0	67.3	65.9	63.3	49.6

25X1

Table B-12**Key LDC Debtors: Investment in the Private Sector by Foreigners***Billion 1980 US \$*

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	1.0	1.3	1.5	4.5	2.8	4.3	4.6	5.4	4.5	6.5	4.8	2.4	1.7
Argentina	0.2	0.1	0	0.1	0.1	0.2	0.3	0.2	0.7	0.7	0.2	0.1	0.1
Brazil	0.4	0.4	0.8	1.8	2.1	2.4	2.5	2.7	1.9	2.3	2.5	1.3	0.6
Chile	0.1	-0.1	-0.2	0.1	0	0	0.2	0.3	0.2	0.3	0.3	0.1	0.1
Mexico	0.3	0.5	0.6	0.8	0.9	0.7	1.0	1.5	2.1	2.3	0.7	0.4	0.3
Nigeria	0.1	0.4	0.4	0.6	0.5	0.6	0.3	0.3	-0.7	0.2	0.3	0.3	0.2
Peru	0	0.1	0.1	0.4	0.2	0.1	0	0.1	0	0.1	0.1	0	0.1
Philippines	0.1	0	0	0.1	0.2	0.3	0.2	0.2	0.3	0.4	0.4	0.1	0.1
Venezuela	-0.1	0	0	0.6	-1.2	0	0.1	0.1	0.1	0.2	0.2	0.1	0.2

25X1

~~Confidential~~

Table B-13

Percent

**Key LDC Debtors: Foreign Private-Sector Investment
as a Share of Total Investment**

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	1.9	2.1	1.6	3.1	1.8	2.6	2.7	3.0	2.4	3.5	2.9	1.7	1.3
Argentina	1.1	0.6	0.1	0.4	0.5	0.5	1.0	0.7	1.9	2.8	1.0	0.8	0.5
Brazil	3.0	2.6	3.5	3.8	4.1	4.8	4.6	4.9	3.2	4.2	4.8	2.8	1.4
Chile	4.5	NA	NA	2.3	NA	1.0	6.6	6.8	4.3	6.2	9.4	4.1	4.1
Mexico	4.1	4.1	3.2	2.8	2.9	2.7	3.2	3.9	4.9	4.6	1.8	1.3	0.9
Nigeria	3.9	8.4	5.1	3.5	2.5	2.5	1.3	1.8	NA	0.7	1.8	1.6	1.3
Peru	2.6	5.4	NA	12.7	7.9	3.0	1.5	3.6	1.0	3.4	1.6	1.4	3.4
Philippines	NA	NA	NA	2.4	2.9	4.6	3.3	2.6	2.9	4.9	4.2	1.0	1.3
Venezuela	NA	0.1	NA	5.0	NA	NA	0.4	0.5	0.4	1.1	1.4	0.5	1.4

25X1

Table B-14

Billion 1980 US \$

Key LDC Debtors: Total Savings

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	53.0	72.5	106.3	157.6	170.9	184.0	184.0	183.3	189.3	190.4	186.6	159.2	159.4
Argentina	13.0	15.4	26.1	27.5	32.5	38.5	35.6	34.6	33.4	27.2	30.5	29.6	30.5
Brazil	14.0	16.9	25.8	55.9	58.6	59.2	58.6	62.0	66.7	61.7	66.6	53.6	51.2
Chile	1.3	2.0	2.5	3.2	2.9	3.5	4.4	5.0	6.7	7.9	4.8	5.7	5.7
Mexico	10.0	16.2	22.6	34.6	34.2	34.9	38.9	44.6	50.7	59.1	45.9	39.0	43.2
Nigeria	1.5	4.5	8.8	17.6	21.1	23.6	21.4	19.8	20.6	20.2	17.4	20.7	17.7
Peru	3.0	3.6	2.5	5.3	4.5	3.6	3.4	2.5	3.0	4.5	4.6	3.1	3.5
Philippines	1.8	2.1	3.8	7.1	8.2	8.3	9.4	10.8	11.6	12.0	13.2	13.0	10.5
Venezuela	8.6	11.8	14.3	6.5	9.0	12.3	12.4	4.1	-3.4	-2.0	3.6	-5.5	-2.8

25X1

Table B-15

Key LDC Debtors: Domestic Savings

Billion 1980 US \$

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	50.5	72.1	101.5	139.1	155.4	168.3	159.9	165.4	168.6	153.1	151.6	153.6	155.0
Argentina	12.5	15.9	25.7	25.6	33.3	40.0	37.8	34.0	28.7	22.8	28.4	27.5	28.2
Brazil	12.6	17.5	24.2	45.9	49.8	52.7	50.2	50.6	53.9	51.0	52.5	48.2	48.5
Chile	0.9	1.9	2.3	2.5	3.1	2.8	3.1	3.7	4.7	3.5	2.8	4.8	4.7
Mexico	9.2	15.2	20.5	28.9	29.6	32.6	35.1	38.6	42.6	46.4	43.4	43.6	45.0
Nigeria	1.0	3.9	8.0	17.7	20.6	22.3	16.9	21.6	24.8	14.9	11.1	17.8	17.3
Peru	3.0	3.3	2.9	3.1	2.9	2.4	3.1	3.4	3.0	3.0	3.2	2.3	2.7
Philippines	1.8	2.4	3.7	5.8	6.7	7.3	8.0	9.1	9.6	9.9	10.3	10.6	9.3
Venezuela	9.6	11.9	14.1	9.6	9.4	8.3	5.6	4.5	1.4	1.6	-0.1	-1.2	-0.6

25X1

Table B-16

Key LDC Debtors: Share of Domestic Savings in Total Savings

Percent

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	95.2	99.4	95.5	88.2	90.9	91.5	86.9	90.2	89.1	80.4	81.2	96.5	97.2
Argentina	95.9	103.5	98.8	93.4	102.7	103.7	106.2	98.4	85.7	84.1	93.0	92.7	92.6
Brazil	90.4	104.0	93.7	82.2	84.9	89.0	85.8	81.5	80.8	82.6	78.9	90.0	94.9
Chile	73.0	94.8	92.9	78.0	106.9	79.7	70.9	73.9	70.6	44.9	58.7	84.4	81.2
Mexico	91.6	94.0	90.8	83.4	86.6	93.2	90.3	86.6	83.9	78.5	94.5	111.8	104.0
Nigeria	65.4	86.8	91.8	100.3	97.7	94.5	79.0	109.2	120.7	73.9	63.8	86.0	98.2
Peru	100.7	90.2	115.7	58.7	64.4	66.9	93.2	134.1	102.1	66.3	69.0	75.3	75.9
Philippines	99.4	113.8	97.5	81.6	81.8	87.5	85.3	84.2	82.5	82.5	78.1	81.7	88.5
Venezuela	112.0	100.7	98.6	147.5	103.8	67.1	45.2	109.4	NA	NA	NA	21.6	22.1

25X1

Table B-17

Billion 1980 US \$

Key LDC Debtors: Foreign Savings

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	2.5	0.4	4.8	18.6	15.6	15.7	24.1	17.9	20.7	37.3	35.0	5.6	4.4
Argentina	0.5	-0.5	0.3	1.8	-0.9	-1.4	-2.2	0.6	4.8	4.3	2.1	2.2	2.3
Brazil	1.3	-0.7	1.6	9.9	8.8	6.5	8.3	11.4	12.8	10.7	14.1	5.4	2.6
Chile	0.3	0.1	0.2	0.7	-0.2	0.7	1.3	1.3	2.0	4.3	2.0	0.9	1.1
Mexico	0.8	1.0	2.1	5.7	4.6	2.4	3.8	6.0	8.2	12.7	2.5	-4.6	-1.7
Nigeria	0.5	0.6	0.7	-0.1	0.5	1.3	4.5	-1.8	-4.2	5.3	6.3	2.9	0.3
Peru	0	0.4	-0.4	2.2	1.6	1.2	0.2	-0.9	-0.1	1.5	1.4	0.8	0.9
Philippines	0	-0.3	0.1	1.3	1.5	1.0	1.4	1.7	2.0	2.1	2.9	2.4	1.2
Venezuela	-1.0	-0.1	0.2	-3.1	-0.3	4.0	6.8	-0.4	-4.7	-3.7	3.7	-4.3	-2.2

25X1

Table B-18

Percent

Key LDC Debtors:

Foreign Savings as a Share of Total Savings

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	4.8	0.6	4.5	11.8	9.1	8.5	13.1	9.8	10.9	19.6	18.8	3.5	2.8
Argentina	4.1	NA	1.2	6.6	NA	NA	NA	1.6	14.3	15.9	7.0	7.3	7.4
Brazil	9.6	NA	6.3	17.8	15.1	11.0	14.2	18.5	19.2	17.4	21.1	10.0	5.1
Chile	27.0	5.2	7.1	22.0	NA	20.3	29.1	26.1	29.4	55.1	41.3	15.6	18.8
Mexico	8.4	6.0	9.2	16.6	13.4	6.8	9.7	13.4	16.1	21.5	5.5	NA	NA
Nigeria	34.6	13.2	8.2	NA	2.3	5.5	21.0	NA	NA	26.1	36.2	14.0	1.8
Peru	NA	9.8	NA	41.3	35.6	33.1	6.8	NA	NA	33.7	31.0	24.7	24.1
Philippines	0.6	NA	2.5	18.4	18.2	12.5	14.7	15.8	17.5	17.5	21.9	18.3	11.5
Venezuela	NA	NA	1.4	NA	NA	32.9	54.8	NA	140.2	178.6	102.6	78.4	77.9

25X1

Table B-19

Billion 1980 US \$

Key LDC Debtors: Gross Domestic Product

	1960	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	264.2	341.0	472.2	631.8	668.3	705.3	722.8	770.4	807.8	807.9	798.4	777.0	783.2
Argentina	78.9	97.7	120.4	138.7	138.0	146.9	141.9	151.0	152.2	142.7	135.1	138.9	141.7
Brazil	59.6	74.3	108.4	177.9	195.2	205.8	215.7	230.1	248.2	243.4	246.8	239.0	240.2
Chile	14.2	17.1	21.5	19.2	19.9	21.8	23.6	25.6	27.6	29.1	25.0	24.8	25.9
Mexico	49.9	70.4	98.3	135.0	140.7	145.6	157.6	172.0	186.3	201.1	200.1	190.7	194.7
Nigeria	18.7	24.2	50.2	66.8	73.9	78.9	74.4	78.8	79.2	75.0	73.4	70.1	69.4
Peru	8.7	11.8	14.2	17.7	18.1	18.1	18.0	18.7	19.4	20.2	20.3	17.9	18.0
Philippines	11.8	15.2	19.5	26.1	27.9	29.8	31.6	33.7	35.4	36.7	37.6	38.2	36.2
Venezuela	22.4	30.3	39.7	50.4	54.6	58.4	60.0	60.5	59.5	59.7	60.1	57.4	57.1

25X1

Table B-20

Percent

Key LDC Debtors: Average Annual Growth Rate of Real Gross Domestic Product

	1965	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total	5.7	9.0	2.6	5.8	5.5	2.5	6.6	4.9	0	-1.2	-2.7	0.8
Argentina	9.2	5.3	-0.8	-0.5	6.4	-3.4	6.4	0.8	-6.2	-5.3	2.8	2.0
Brazil	3.1	9.7	5.6	9.7	5.4	4.8	6.7	7.9	-1.9	1.4	-3.2	0.5
Chile	1.2	2.4	-12.7	3.6	9.5	8.3	8.5	7.8	5.4	-14.1	-0.8	4.4
Mexico	6.5	6.8	5.6	4.2	3.5	8.2	9.1	8.3	7.9	-0.5	-4.7	2.1
Nigeria	2.5	29.7	-2.5	10.6	6.8	-5.7	5.9	0.5	-5.3	-2.1	-4.5	-1.0
Peru	5.4	6.0	4.7	2.3	0	-0.6	3.9	3.7	4.1	0.5	-11.8	0.6
Philippines	5.6	4.8	6.5	6.9	6.8	6.0	6.6	5.0	3.7	2.5	1.6	-5.2
Venezuela	5.2	8.8	6.1	8.3	7.0	2.7	0.8	-1.7	0.3	0.7	-4.5	-0.5

25X1

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